

## **Harris County, Texas**

### **Imputed Income for Employer Provided Group Life Insurance**

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Upon eligibility for group health and related benefits as described in the Harris County Personnel Regulations, the County provides a basic group life insurance policy of \$30,000 for employees and up to \$5,000 for dependents. Employees also have the option to purchase additional group life insurance at one, two or three times their annual earnings.

Section 79 of the Internal Revenue Code requires that any employer provided life insurance as described above in excess of \$50,000 be taxed based on the age of the employee. In addition, the value of employer provided life insurance for dependents is subject to taxation as well. As a result, the majority of County employees are subject to what is known as “imputed income,” and an associated tax liability. The “imputed income” and associated tax liability is directly related to the employee’s age. For example, a 55-year old employee would have a higher “imputed income” and tax liability than a 30-year old employee with the same life insurance coverage.

Therefore, the County is obligated to include the value of these benefits to an employee’s gross earnings on their final paycheck of the calendar year and deduct Social Security and Medicare taxes for this additional “imputed income”. Although federal income tax withholding is not deducted for the value of these benefits, the “imputed income” will be added to an employee’s W-2 and subject to taxation at the time they file their income tax return.

We are providing this information, so that employees can plan for the deduction. To calculate an estimate of this additional tax liability, use the imputed income calculator on the Harris County Employee Information website.

It should be noted that in most cases, for those employees who have selected optional life insurance, the pre-tax premium savings is greater than the additional tax liability associated with the imputed income. Therefore, it is advantageous to have premiums for optional life insurance pre-taxed.

If you have any questions regarding this information, please contact Human Resources & Risk Management at 713-274-5500.